

# Tax alert | Calculating real estate businesses' *zakat* liabilities

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The Saudi General Authority of *Zakat* & Tax (GAZT) has released a guide to assist real estate businesses with calculating *zakat* liabilities. *Zakat* payers can calculate their *zakat* base by adding internal and external source of funds (*zakatable* assets) and subtracting fixed assets, accumulated losses and long-term investments (non-*zakatable* assets). *Zakat* is payable on the higher of the *zakat* base - calculated at 2.5% for 354 days (the length of the *Hijri* year) or 2.5% of tax-adjusted profits.

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## What are real estate activities?

- Buying and selling real estate
- Leasing real estate
- Agency services
- Real estate valuations

## What are the most common non-*zakatable* assets?

Deductions from the *zakat* base include:

- Properties under development or for development and subsequent sale where:
  - The property is reported as a non-current asset (or under IFRS in certain circumstances as a current asset) in the financial statements
  - There is an intention to sell the property only after the development is completed
  - The property is not available for sale in its present state
  - Sales or advance payments received from customers are less than 25% of the property value reported in the current year's financial statements (the 25% must be separately assessed according to the value reported for each development project)
- Properties under development for use in the business
- Property purchased by lessees under a finance lease (that is, leased assets)

## What are the most common *zakatable* assets?

Additions to the *zakat* base include:

- Revenue recognised using the percentage of completion method but not invoiced
- Progress payments paid to contractors or sub-contractors on long-term development projects
- Completed real estate projects ready for sale

## What questions should real estate decision makers ask themselves?

- Do we intend to sell this property - or use it in our business activity?
- Do sales or received advance payments exceed 25% of the value reported in our financial statements?
- Has the property been reported as a current asset and deducted from the *zakat* base?

## How can KeyPoint help?

Our tax team works with a range of family businesses in Saudi Arabia with extensive real estate interests. Our sector knowledge, combined with our *zakat* expertise, makes us trusted advisors on a range of *zakat* and real estate issues.

**Disclaimer:** This tax alert is based on our interpretation of the guidelines issued by the General Authority of *Zakat* & Tax (GAZT) and is for general information. Seek professional advice in relation to your particular circumstances.